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RENEWAL INSIDE: COMPANIES AS RESPECTED INSTITUTIONS

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Abstract

For several decades, shareholder value maximization has been considered the main goal that companies should pursue. The quest for deeper ethical roots in capitalism, new social needs and CEOs who highlight different strategic views for companies are broadening the scope of firms' goals. Moreover, the global financial crisis demands a deeper reflection on how to make capitalism work better and simultaneously create economic prosperity and social value. This paper focuses on the role of firms in society and their contribution to a renewed capitalism. It argues that firms are not only mechanisms for value creation but also social institutions that are indispensable for economic growth and social progress. As institutions that aim to survive in the long term, companies – along with senior business leaders – need to be respected by customers, employees and investors. This paper explains why society needs respected companies, why this notion can help improve capitalism and how to develop and assess those companies.

Keywords: Respected companies; Reforming capitalism; Respected institutions; Corporate reputation; Notion of the firm; Corporate governance

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1. Corporate Reputation Wears Off

The painful effects of the 2008 financial crisis unleashed a wave of populism and anticapitalism in many countries throughout the world. The human and social costs of the crisis have been devastating. Higher unemployment, increasing economic inequality and insecurity and a brutal squeeze on the middle class have left deep scars in our society. Citizens' rage is directed at politicians and business leaders whose behavior has been neither an example of professional competence nor a positive moral reference point for others. The public blames banks and large companies for the financial crisis and its dismal impact. People also blame political leaders for ineffective economic policies, poor-quality regulation, corruption and conflicts of interest. In a nutshell, the rise of populism and anticapitalism over the past few years are connected phenomena.

Reforming capitalism requires more competent and accountable governments that implement better economic policies, more effective supervision of financial institutions, stable legal systems and the rule of law, ethical values that strengthen trust in society, market competition and better governance of the global economy.

Nevertheless, when it comes to improving how capitalism works and unleashing its renewal, the role of companies – key players in a market-based economy – is more important than ever and also needs to be reinvented. Over the past few years, corporate reputations have been badly hit. Start-ups and small and mid-size companies are still respected by public opinion. But recent polls show that large companies are among the least-respected institutions in society[1] There is a widespread perception that many companies – in particular, large publicly traded companies and venture capital firms – do not care about the common good of society and that their Boards and CEOs are concerned mainly about maximizing short-term profits.

The forces that have led companies to the current situation are diverse. The preeminence of the maximization of shareholder value as firms' only goal (Rappaport, 1986) has been an important driver of today's negative public perception of companies (Davis, 2009; Rosanas, 2011). Investment banks, consulting firms, scholars and analysts have adapted their work to offer advice on how companies should maximize economic value, without asking too deeply about what it means and the true value of this hypothesis.

The outcome is that firms' strategies, investment and divestment decisions, the selection and compensation of CEOs, managerial incentives and other Board decisions –and the focus of their communication with investors and analysts – have revolved around that goal. It has become the yardstick to assess a firm's success. It is clear that companies need to be profitable: this is a condition for their survival. The problem arises when maximizing shareholder value becomes the only goal and firms do not care enough about serving customers, employees and other stakeholders, and the common good of society.

Moreover, there is an additional factor that calls for a deeper notion of what a firm is, what its goals should be, and the concept of corporate performance that CEOs need to consider. Today, each firm operates in an interconnected system, together with other companies, governments and organizations that create very important external effects. The case of central and other banks, investment management firms, nonfinancial companies and savers in today's banking system is a clear case of an interconnected system that creates external effects – such as economic bubbles – beyond the individual actions of each player. The same happens with many social problems – unemployment in general and youth unemployment in particular, poor-quality education, climate change, immigration, and the pension crisis, among others – where the individual actions of each player have limited power to solve those problems. These problems can be tackled successfully only with public-private cooperation, where companies should be part of the solution. It is clear that, in this context, the goal of maximizing economic value is not only incomplete but is a poor guide to what a company can do and should do to survive in the long term, to help develop the common good of society and be a responsible corporate citizen.

This paper argues that firms are above all social institutions, not only organizations that create economic value. A firm's goals are diverse and cannot be limited to maximizing short-term economic performance. A more holistic view of what a company is, what goals it has and how it can be made into a respected institution in society are discussed in this paper.

The paper is organized as follows. Section 2 discusses the notion of a firm as a respected institution and why this is an important concept for renewing capitalism and making it work better. In sections 3 and 4, the qualities that make a firm a respected institution are discussed. In section 5, a framework to assess a firm's performance as a respected institution is presented. Section 6 offers some implications that firms as respected institutions have for CEOs.

2. Respected Companies: What They Are and Why We Need Them

Expectations about firms have changed dramatically over the past few years. Companies need to create value in a sustainable way. This condition means that firms must serve customers effectively, develop competent and committed employees, and have a positive impact on society. Any of these dimensions may be at conflict with others in the short term. In the long term, it is not possible to be successful in just one of these dimensions. A company needs to achieve a minimum of goals for each dimension of corporate performance.

This is not only a theoretical reflection. More and more business leaders – such as Nestlé CEO Paul Bulcke, Inditex CEO Pablo Isla, Bertelsmann CEO Thomas Rabe, Henkel CEO Kasper Rosted and Schneider CEO Jean-Pascual Tricoire, to mention just a few – have similar views. Paul Polman, the CEO of Unilever, argues that companies need to create both economic and social value and also be part of the solution to some important challenges that society is facing today (Polman, 2014). CEOs should consider not only economic performance indicators but also social, ethical and other variables in order to develop a lasting reputation. Quarterly profits, one of the financial indicators used by companies, do not provide a good perspective of a company's long-term strength. Unilever decided to drop them and instead use a wider set of goals, with a long-term perspective of the company. The goals in the Unilever Sustainable Living Plan included doubling the size of the firm and reducing its environmental footprint by 2020. Polman believed that a company was more than an organization with financial goals.

Some scholars and CEOs claim that firms need to focus on profits, and that stock ownership and other economic incentives are good ways of aligning managers' behavior with the evolution of the share price (Jensen and Meckling, 1976; Rappaport, 1986). Unfortunately, over the past 20 years the real track record of corporate strategies with that focus on profits has not been very positive. As a matter of fact, banks were among the companies that had adopted that perspective in a more professional way. It seems clear that the poor structure of goals, strategies and incentives led many banks in the United States and Europe to a deep banking crisis and unleashed the worst economic crisis in decades.

Moreover, that focus on profits has been leading firms toward a radical outsourcing of activities, subcontracting an increasing number of functions and activities to a variety of third-party suppliers. In some cases, this may be good and necessary; in other cases, it is just a strategy to lower costs in the short term, not to reinvent the company for the future. The worst outcome is the radical view of a company as a mere nexus of contracts, or the "Nikefication" of companies (Davis, 2011), where people and individual and social learning do not matter much. In the worst scenario this means the dehumanization of companies, which are seen only as a sequence of economic activities, where the role of individuals is assessed in terms of short-term economic efficiency. This situation may be becoming even worse with the emergence of the on-demand economy or the website enterprise.

Companies that have developed a positive reputation over the years are good at making profits and are also good at integrating different financial and nonfinancial objectives. Decision making means choice, but choice does not mean the exclusion of relevant factors. It involves wise and prudent judgment on how business leaders define their companies' objectives and set priorities. Even Jack Welch, who played by the rule of maximizing shareholder value at GE during the 1980s and 1990s, highlighted the weakness of that criterion later on.[2] CEOs have to make choices, but they should also integrate all the relevant dimensions in any business decision that they make.

This paper takes a holistic view of companies – along the lines highlighted by Polman and other CEOs – and argues that companies are social institutions that have a special purpose: to provide their customers with goods and services by efficiently allocating limited resources and generating economic and social value in the process. An institution is an organization with a culture, a set of norms and values, and a body of knowledge that guides its behavior. Its values, policies and performance influence the way society perceives it. Kanter (2009) uses the notion of the institutional logic of organizations and explains that firms are a vehicle for accomplishing social purposes and providing meaning, beyond profits or financial compensation.

Consistent with this perspective, the author of this paper considers a firm to be a group of people who work together to serve customers and provide goods and services, create economic value in this process, shape a context that fosters the professional development of its people and contribute to the society in which it operates (Canals, 2010b). In the end, in any firm there are people with certain values working with other people to serve customers.

A respected company is an organization that shows a good, balanced combination of customer service, economic performance, people development and an interest in the common good of society. Respect is a quality that implies honor, high opinion or regard. It develops esteem for the person or the institution that has it. A respected company derives its reputation from the views that customers, investors, professionals and society have of it. These stakeholders feel respect for a company that seeks a balance between economic value creation and social impact, and they admire organizations that care about people and customers.

Some dimensions of this notion of the firm have been highlighted before. Stakeholder theory suggests the need to broaden the goals of the firm by taking into account the interests of different stakeholders, not only shareholders, and developing a management model – with a strategic process, goals, policies and management systems – consistent with this view (Freeman, 1984). This is a notion that has been embraced by some large publicly owned companies in Western countries over the past two decades. It is a useful notion but, unfortunately, sometimes it has become a framework for a pattern of compliance or "box ticking," rather than truly changing the view of the firm.[3] The conscious capitalism model (Mackey and Sisodia, 2012) offers a good diagnosis of the problems of the contemporary company and its focus on shareholder value. It presents some relevant pillars for developing a new view of the firm, which can help reinvent companies and regain some lost reputation.

The shared value concept (Porter and Kramer, 2011) is a powerful idea to integrate noneconomic dimensions into value creation. This concept has the potential to help change business models, even more than the stakeholder or conscious capitalism models, because it forces companies to think more deeply about how to develop business models that integrate both the economic and the social dimension of a firm. Nevertheless, it seems that, however good its intentions are, this concept still sticks to the objective of maximizing shareholder value. A renewal of the role of companies in society requires a more holistic perspective.

These new models are useful proposals, but a sea change is needed if the business world wants to serve society better. The most profound reason for encouraging companies to grow as respected institutions is not pragmatism, enlightened self-interest or aspirational goals of inclusiveness. Nor is it a question of following the trend at a time when companies seem to be atoning for their past sins against society by committing to projects that have a greater social impact. Rather, the true reason lies in the fact that companies are made up of people who have needs, aspirations and motivations, and these identify some fundamental realities about companies.[4]

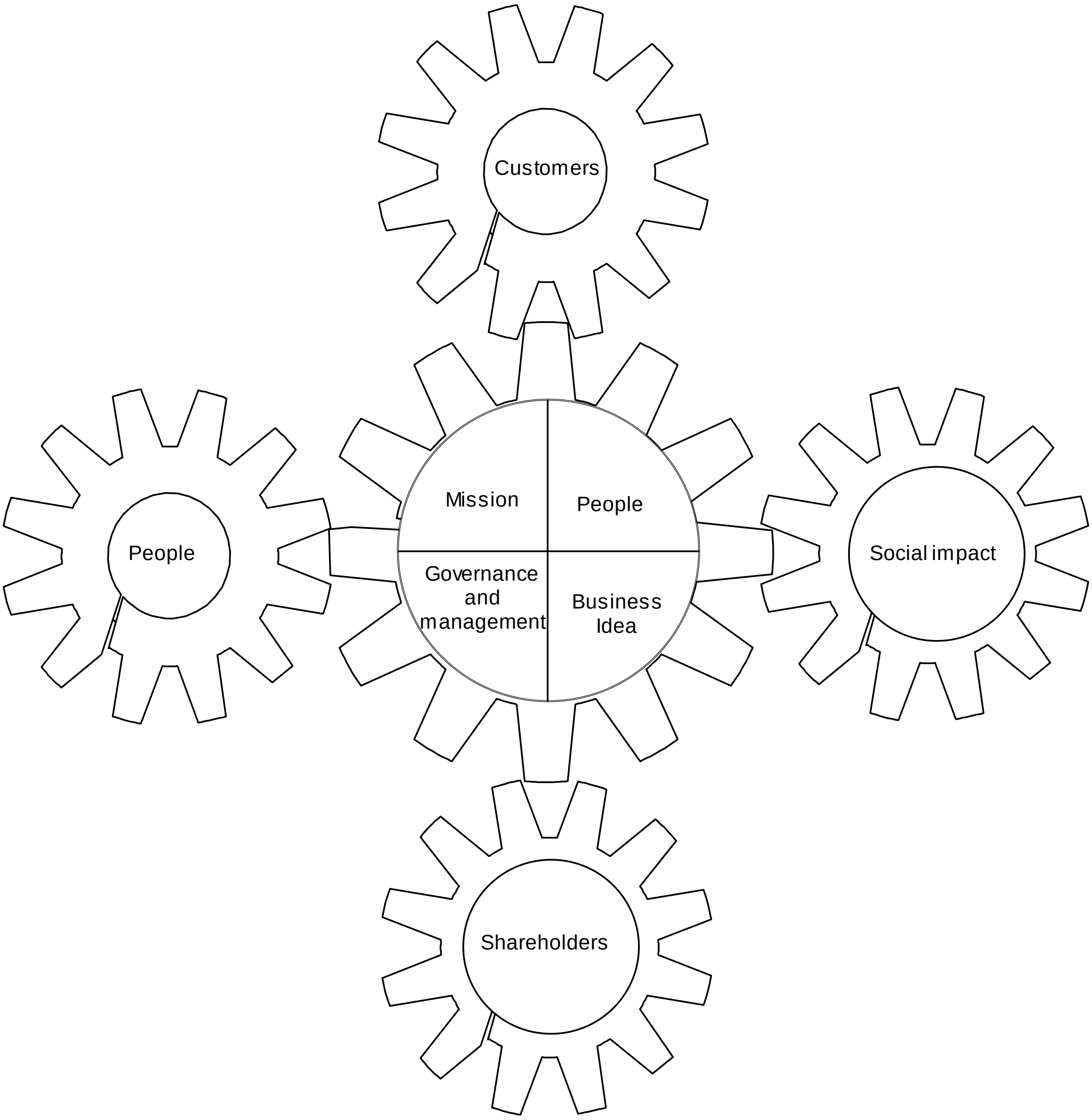
The first is that companies should have economic goals but also aim to be professional, fair, respectful and decent with employees, customers and suppliers. The second is that companies need to grow and develop their own people, not only for economic reasons but mainly because each person has a special dignity that should be respected by any institution that also wants to be respected by society. Companies are the context where ordinary adults spend most of their time. Companies need to be made human so that each person can grow in them, make a positive contribution and become more human by working in them. The third is that companies are social institutions that are given a stamp of legitimacy by society and should care about the common good of society: they get tangible and intangible goods from society and should contribute to it and behave responsibly. Companies receive from society not only the legal approval to operate but also the social legitimacy to exist. Therefore, companies need to behave in an exemplary way, not only in terms of economic dimensions, and their senior managers should lead by example.

There is an additional factor to be considered, which is perhaps less important in terms of its essential foundations but is also relevant for companies: younger generations of professionals want to work in companies that have a purpose and respect human dignity. More and more investors want to be part of business projects that have not only an economic goal but also a very strong social perspective. Companies need to become respected institutions if they want to attract talented and virtuous people who are engaged with and committed to the company, as well as responsible investors.

The inner foundations of a respected firm are its core attributes: its mission and values, business idea, people and professional development, and quality of governance and management. Those qualities show the strength that a respected company has and the potential for its external impact on key stakeholders. Figure 1 presents the core attributes to be found in a respected company and their external impact attributes. The overall performance of a respected company can be observed and measured by taking into account both core attributes and external impact dimensions. This notion offers a more holistic view of companies. It does not guarantee that firms will not make mistakes but provides a positive reference for employees, investors and customers. Next this paper will discuss the core attributes of a respected company before going on to explore its external impact attributes.

Figure 1

Respected companies: Core attributes and external impact attributes



3. The Core Attributes of a Respected Company[5]

In the development of a respected company, some core attributes are needed to form its foundations: a mission and values that give purpose to the firm; a business idea on how to serve customers, promoted by an entrepreneur; committed people; and an effective management and corporate governance model. Each one of those factors is very relevant and has been studied theoretically and empirically in the academic literature, but it is very important to put these dimensions together when defining and assessing what makes a respected company.

Mission and values. A company's mission statement tries to explain why a firm exists, what it tries to do and why. The mission is related to the service that a company wants to offer its customers beyond the quest for economic profit. The strength of this mission depends on its clarity and commitment, its connection with the firm's strategy and strategic choices, and senior management's ability to make decisions based upon it (Pérez López, 1993).

Bertelsmann is a company that tries to stick to its mission and basic values in all its activities. Its mission statement also defines some of the firm's aspirations:

> "We provide information, entertainment and media services to inspire people's daily lives. We aspire to make a valuable contribution to society. We strive to be leaders in our markets and to achieve returns on capital employed that guarantee the growth and continuity of our corporation. Our joint efforts focus on creative content and customer relations. We seek to provide working conditions that are equitable and motivating for our employees."[6]

Bertelsmann's mission and values are reflected in the way the company thinks about corporate growth, deals with people's development, restructures the business and relates to the society in which it operates. This does not mean that a company with a strong sense of mission does not make mistakes or cannot fail. It simply means that the whole company strives to achieve success for every party by pulling all of them together.

A firm's values also shape its approach to management and decision making. Key values such as accountability, transparency, respect for each person and long-term perspective are powerful drivers of talent, help develop the quality of management and enhance the decision-making process.

Business idea. An entrepreneur with an idea is the starting point of a company. This idea defines a way of serving customers and providing goods or services efficiently. Zara, owned by Inditex, provides a good example. About 15 years ago, it redefined the notion of fast fashion with a new model of design, logistics, operations and retailing (Ghemawat and Nueno, 2005) that has allowed the company to grow very quickly and become a global leader in its industry. The firm's business model describes how it creates value in the long term, through a combination of people's capabilities, resources (technology and financial capital), knowledge and relationships with customers, suppliers and other firms.

The experience of many firms shows that a business idea is not enough. There is a business idea behind any company but an idea alone does not make a company. An idea must evolve into a more developed business model, a way to produce or sell goods or services efficiently in a sustainable way in the long term (Amit and Zott, 2012; Casadesus-Masanell and Ricart, 2011). An idea can become the company's driving force in the beginning but it cannot replace strategic thinking about customers, products and markets and about what distinctive capabilities the firm needs to develop.

This reasoning also becomes more integrated and eventually generates a business model where a company sees itself playing a role in an industry or a set of industries –including those of suppliers and customers. Moreover, an idea may be excellent when it is conceived but may be executed poorly. Conversely, it may be poor when conceived and improved upon execution. Strategic thinking is important and necessary but a smart strategy with bad execution cannot be a good strategy. Companies such as Inditex have become reference points not only for their unique strategy but also because they thought in the long term and designed operations accordingly.

People and professional development. Respected companies are, above all, institutions admired by their employees. A company is a group of people who work in a coordinated way to serve customers and generate economic value for shareholders. Respected companies such as Danone and Schneider have a simple starting belief: to hire and develop good people who are committed to the firm and feel proud of it.

Good people management requires respect for each person, an atmosphere of fairness and trust, overall quality of management, a clear process for setting goals and offering feedback and support, opportunities to learn and develop, a fair compensation system, and clear career paths and professional development (Brockbank and Ulrich, 2003). These qualities are critical. Unfortunately, they are not widely respected by companies, as Pfeffer (2010) describes in his discussion of how some companies may have a negative physical impact on their own people.

Respected companies are not soft organizations. They are demanding and expect a lot from their people. Learning is a top priority, supported across the organization. Assessment is organized not only around performance and capabilities but also learning and improvement. Respected firms know that in order to be successful they must develop and promote their people. They see their people not as resources but as the key agents and drivers who help grow the firm as a respected institution.

Governance and management. The quality of governance and the quality of management are key factors in explaining firms' behavior and performance. Governance refers to the leadership that the Board of Directors exerts, helping to develop the company for the long term and shape the decision-making process. Management refers to the policies, systems and action plans designed and implemented by the top management team – the CEO and his or her team – and their delegation of power and responsibilities to different levels of the company.

The quality of governance is shaped by the ownership structure and the relationships among the different shareholders, the quality of the Board of Directors, the quality of the senior management team and the basic principles that inspire governance (Canals, 2010a). Some specific principles are decisive factors in shaping the quality of governance. This paper would like to highlight four of them: the accountability of Board members and senior managers; transparency in the decisions made and the outcomes achieved; the independence of the Board of Directors in preserving and enhancing the firm's value; and the preeminence of the firm's long-term value above the short-term interests of Board members and groups of investors.

The experiences of numerous companies show that there must be a balance between shareholders' real ability to exert an influence – as the company's owners – and the executive team. Respected companies have a clear definition of the relationships among a company's shareholders, the entrepreneur who has the idea and the top management team. In the case of Inditex, Amancio Ortega was the entrepreneur and brought Pablo Isla on board as CEO in 2005. A sound institutional structure allows it to fulfill its mission and ensure its continuity over time. Conversely, a flawed, unstable institutional structure is one in which capital is not committed, shareholders exert a feeble influence, or executives suffer excessive bureaucratic control.

The structure, functions and working processes of the Board of Directors are essential in governance (Canals, 2010a). The role of entrepreneurs in an economy is indispensable, but the development of companies and their transformation into respected institutions require good governance. Otherwise, an entrepreneur's good idea – as we can see in many start-ups that have promising business models but fail to grow – may die quickly. It will be like a car without the right chassis or a boat without a solid hull. Institutional structure is not the most important feature of a company, just as the chassis is not the most important part of a car; yet without the right one, the other elements will not fit well. With a good institutional context, a firm can be managed better and be oriented toward the future.

4. Respected Companies: Their External Impact

Respected companies have a positive impact on customers, shareholders, their own people and society. The outcome goes beyond mere shareholder value. The results are the outcome of the inner qualities that companies cultivate and develop. Nevertheless, it is relevant to consider that not all stakeholders are equal or have the same rights. Priorities should be set according to the legal rights of the different stakeholders and the nature of their relations with the company. Corporate governance needs to set the priorities of the firm's impact and how to proceed in the case of conflicts of interest. This order should be guided by notions of fairness, respect for the legitimate rights of any party and the satisfaction of some minimum needs.

Customers. A firm exists to serve customers. Companies interact with other key stakeholders (people and investors, among others), but without customers there can be no company. Entrepreneurs need to build a team, raise capital and use technology and other resources, but their work will be useless unless they serve customers efficiently.

The decline of some retailers (some of them traditional, some of them Internet-based) in Europe and the United States in the 1990s and 2000s provides a useful reference. Some of these companies were buoyed by economic growth and the expanding purchasing power of middle-class families. Some of them paid little attention to customer service, thrived for a while and eventually failed. A similar experience can be observed in the airline industry. In the 1990s, strong demand for air travel, cheap tickets and deregulation offered many companies the opportunity to enter the industry and grow the air traffic supply. For some companies, customers were just a burden they had to deal with. When the economy entered the big recession in 2008 and air travel suffered, such companies' ability to attract and retain customers was extremely weak. Only airlines that had developed business models with good customer service emerged stronger. In the long term, customer loyalty is one of the most accurate indicators of a successful company.

Companies that serve customers well, that do a good job of thinking about them, respecting them and providing good quality, are companies respected in turn by their customers. Customers admire companies such as Unilever or Nestlé – even if their products are not the cheapest in their industry – because they perceive these companies as customer-friendly firms that care about employees and are concerned with values, beyond profitability. They tend to generate customer loyalty, and this eventually leads to more sales. To win loyal customers, the company must do a very good job not only manufacturing goods or providing services of reasonable quality at reasonable prices, but also understanding customers' needs and thinking about how to make customers happier with the firm's products. Interestingly, some of the best brands in the world do not belong to the largest companies in their industry, nor even to the most profitable ones. For instance, in the automobile industry General Motors was the largest firm, but smaller companies, such as BMW, had a stronger reputation and more solid financial performance.

Shareholders and economic performance. A respected company must generate good financial returns for its shareholders: this is part of the contract between companies and their investors. Otherwise, a company will not attract the financial resources that it needs to grow. Nevertheless, the notion that a company has to be run to maximize shareholder value is incomplete. This is a concept that appeared in the 1970s and 1980s (Jensen and Meckling, 1976; Rappaport, 1986). Its quick acceptance by large firms and investment banks was due to its apparent simplicity and focus (Ferraro, Pfeffer and Sutton, 2005). It also seemed to fit well in an era of expected unlimited growth. Unfortunately, the effects of its implementation, its use by many large firms when making strategic and financial decisions – for instance, mergers and acquisitions with no clear economic rationale and very little postmerger economic value creation – and the design of managerial incentives and compensation systems led to many corporate disasters. This model also helped drive stock prices higher, which also was used to compensate not only shareholders but also senior executives and those on Boards of Directors.

This model eventually failed for several reasons: it led to high-risk decision making in search of higher shareholder value, a short-term orientation, little respect for ethical values, outrageous compensation systems, a corporate culture based on growth at whatever price and a disdain for the common good of the society in which the company was operating. Companies that followed those ideas did not have a purpose aimed at leaving a positive legacy. It is clear that, with these structural weaknesses, maximizing shareholder value cannot be a solid indicator of corporate performance.

With a prudent balance between economic and noneconomic goals as highlighted above, the higher the returns in the long term, the better it is for companies and investors alike. The key point here is prudence in setting policies on shareholder dividends and overall shareholder compensation, and a good understanding that companies are social institutions that need to take into account different perspectives.

In support of the hypothesis of maximizing shareholder value creation, it is often argued that shareholders are the owners of the company. Nevertheless, the legal tradition in the Anglo-Saxon system stresses that shareholders have some rights but do not own the company. Corporations have a special legal status by which they are persons who own themselves (Stout, 2012). It is true that good governance is associated with legal systems that provide stable corporate legislative systems and defend investors from rent-seekers, but this is different from saying that the company's goal is to maximize shareholder value.

Mayer (2013) discusses the short-term horizon of many shareholders – and activist shareholders – and proposes that only shareholders who intend to invest in a company for a long period of time, and are registered as such, should be able to vote in shareholder meetings and have a say on governance or pay issues.

A respected company should consider the way it attracts and retains good shareholders that can help develop the company for the long term. A simple framework of qualities that respected companies display toward shareholders should include accountability, transparency, acceptable profitability, good communication policies regarding the firm's strategic decisions, reliability, and professionalism and clarity in the governance of the firm.

Impact on people: The firm's attractiveness for professionals. Marketing professionals like to work for companies such as L'Oréal and Henkel. Manufacturing and operations experts like companies such as Nestlé and BMW. These and other respected companies show great sensitivity toward their people, and their policies in this area aim to promote people's development. They know that, to improve customer satisfaction, they need excellent professionals. And because such firms do well, respected companies become attractive in the eyes of many professionals. What makes those companies so interesting is that they not only rank highly in terms of return on equity and customer satisfaction, but that they are considered among the best companies for which to work (Ready, Hill and Thomas, 2014).

A firm's capacity to attract excellent professionals is an important source of sustainable competitive advantage over other companies and is key for its future development. The experience of thousands of professionals indicates that people seek to work for companies with some key qualities: respect for all individuals and their dignity, recognition, development and compensation. A respected company with good management tries to develop those dimensions and is a magnet for talent. Moreover, it is a company that develops and retains people. It also attracts people not only by providing economic incentives but also by offering opportunities to learn, grow and participate in a challenging project, one whose mission includes economic performance but goes beyond profit. By developing a deep respect among current employees and potential recruits, those companies build a solid platform to become respected by a larger audience in society. This attribute may become one of the best ways to strengthen the firm's brand and continue increasing its ability to attract and retain excellent professionals in the future.

Broader social impact. By serving customers efficiently, caring about people, generating economic value and paying taxes, a respected company has already made a positive impact on society. But society's needs and expectations have evolved over time and today go beyond those goals. Above all, society needs companies and other institutions to care about the common good in order to help individuals flourish (Argandoña, 1998; Melé, 2002).

The common good of society is built around tangible and intangible good and ethical values: respect for all people and their dignity; civic and ethical values; legal stability; the dynamic role of the private sector, not only in business but in social initiatives; the value of the principles of solidarity and subsidiarity; and social reward for effort and meritocracy. Nevertheless, the common good of society also involves some basic goods and services necessary for ensuring a decent human life for all citizens, in one way or another. Those goods or services include basic education and vocational training, access to healthcare services and welfare benefits, job opportunities, and respect for the environment. Companies cannot rely on governments to offer all those services, and a single company cannot tackle all these challenges. Since these dimensions directly impact the firm and its operations, business leaders must consider how a firm's goals and strategy can address some of these challenges efficiently, whether the firm is acting alone or in cooperation with other companies and governments. As Paul Polman (2014) says, in observing these huge challenges companies cannot be bystanders and need to be part of the solution.

We refer here not to a company's legal obligations, but to the challenges and opportunities that society offers companies and how firms, as social institutions, can contribute to some of them. These challenges may stimulate innovation in different ways, both in terms of old products served in a much more efficient way and new products created to serve new needs. As shown by the cases of Danone providing yogurt in Bangladesh and Infosys offering educational opportunities to Indian children, these and other companies get ideas for innovation while serving social needs.

Historically, companies' involvement with social issues became the core of what is now known as corporate social responsibility, which has moved firms beyond traditional philanthropy. Over the past two decades, companies have been adding functions to their core activities to deal with major social issues, most of them related to sustainability, climate change or their carbon footprint. Nevertheless, these issues are not always connected with the core business of the company in question but merely relate to compliance with external rules. This is positive but may not be enough.

The notion of shared value posited by Porter and Kramer (2011) has helped connect those issues with business strategy. What companies such as Unilever, Nestlé and Schneider try to do is embrace some of those social challenges, which are related in one way or another to their business, and turn them into an integral part of their strategy. This is what Unilever is doing with its ambitious Sustainable Living Plan, Nestlé with its concept of shared value creation, and Schneider with the notion of smart energy. This is not the only way to achieve a wider impact, but it is certainly a model for integrating economic and noneconomic dimensions of performance.

Nevertheless, it is important to stress that companies should embrace these issues not only because of the economic potential that they have for shareholders but because companies need to think holistically, include the development of the common good of society in their strategies and action plans, and treat people and society with respect if they want to grow in the long term. With the shared value concept or some notions of CSR, the risk is that companies may base their relevance on the argument that they are good for business. This is not enough. Companies should consider the wider dimensions because we all need a healthy and dynamic society around us, and companies can help to achieve it. Companies should seek financial returns but also the respect of each person and the development of a thriving society. Companies that do this will be respected beyond the economic value that they create.

5. Assessing a Respected Company: A Holistic Perspective

The growth of a respected company requires a framework that helps managers move from mission and purpose to goals, policies and implementation. Companies must define a broader framework of goals that are at the core of a respected company and develop a more holistic view of how a firm performs. Taking into account nonfinancial dimensions – together with financial variables – in assessing a firm's performance is a very important step forward. The purpose of the framework presented below is not so much to introduce a new portfolio of generic performance indicators but to highlight some key driving factors that help build respected companies, in accordance with the notion presented here.

The view of the firm as a respected institution opens up new dimensions of corporate performance. We organize those dimensions into two categories: core attributes and external impact attributes, as shown in Tables 1 and 2. Each category of attributes is analyzed and presented according to its quantitative or qualitative nature and its indicators. Both qualitative and quantitative perspectives are necessary and should be designed and estimated rigorously. The indicators presented here are consistent with the attributes of respected companies discussed above.

Some of those attributes – in particular, those relating to sustainability, innovation and people development – have been considered, in one way or another, in some sustainability reports' guidelines. Unfortunately, those reports do not offer any holistic notion of what a firm is. Moreover, we also know that some companies that get good grades in some of those reports may not provide an example of long-term orientation or a concern for the common good of society. The unique contribution of a positive notion of the firm as a respected social institution is that it offers a definition of what constitutes a firm's identity. Once the firm's identity has been established, development and performance and ways of assessing its contribution can be developed in a more rational way.

Core Attributes

These attributes help us consider how the firm performs regarding its mission, its people, the true value of its business idea, its effectiveness in translating the business idea into practice, and its quality of governance and management. These areas capture what we call the core attributes or pillars of a respected company and, eventually, of long- term corporate performance.

The main quantitative indicators chosen for these core attributes reflect how good the firm is in terms of productivity, leadership development, resource allocation and return on investment, among others. Qualitative indicators focus on the firm's capacity when it comes to people development, bolstering the leadership pipeline, learning, and the quality of the managerial processes and governance systems. (See Table 1)

Table 1

Some indicators for respected firms – Core attributes

Drivers	Quantitative indicators	Qualitative indicators	Notion
Mission	- Strategic decisions based on the mission - Operational decisions	- Internal/external knowledge - Individuals' engagement - Firms' aspiration	Commitment
Business ideas	- ROI, ROE - Value for customers - New product development	- Value proposition - Innovation - Strategic thinking	Economic efficiency
People	- Turnover and retention - Productivity - Internal promotion - Leadership pipeline	- Cultural diversity - Attractiveness - Learning - Working atmosphere	People development
Governance and management	- Board performance - Management performance - Economic value creation	- Social value creation - Quality of management - Governance processes	Management effectiveness

External Impact Attributes

In this category, we present areas and indicators that help define how a company has an impact and builds its reputation among key stakeholders: customers, employees, shareholders and society at large (See Table 2).

The quantitative indicators for external impact are related to each key stakeholder and include traditional concepts such as staff retention, return on equity (ROE) and stock market performance. However, we also focus on other concepts such as customer satisfaction and retention, and the effectiveness of research and development.

The qualitative indicators for external impact include dimensions such as reputation among customers, transparency, accountability, and attractiveness for people. Each company can define specific measures relating to these indicators to assess both how the company does over a period of time and how it performs vis-à-vis some of its competitors.

Table 2

Respected firms – External impact

Impact areas	Quantitative indicators	Qualitative indicators	Notion
Customers	- Market share - Customer satisfaction - Customer retention	- Loyalty - Innovation - Brand awareness	Customer loyalty
People	- Attracting new professionals - Retention - Development	- Learning - Reputation	Organizational attractiveness
Shareholders	- ROE - Dividends - Stock market performance	- Accountability - Transparency - Reliability	Financial performance
Society	- Jobs and investment - Education and research - Carbon footprint	- Social commitment - Sustainability - Active social player	Citizenship

Overall Indicators

As a way of summarizing the indicators, some notions of overall performance are introduced (in the final column of Tables 1 and 2). In the core attributes group, this paper highlights commitment (regarding mission and values), talent development (regarding people), economic efficiency (regarding the business idea) and management effectiveness (regarding the quality of the governance and managerial processes). The external impact group highlights loyalty indicators (regarding customers), organizational attractiveness (regarding people), financial performance (regarding investors) and citizenship (regarding society).

In accordance with the notion of the firm presented above, the indicators highlighted in Tables 1 and 2 emphasize that corporate performance should take a multidimensional approach. Boards of Directors, senior executives, rating agencies, investment funds and other investors should consider the firm's potential beyond its economic performance in the short term. The financial focus is important, but it is not enough on its own to develop respected firms and assess their long-term potential. The volatility of stock markets throughout the world after the big financial crisis sends a clear message about the limits and partial perspectives that financial performance indicators offer of companies' long-term health and potential. Other dimensions – such as customer satisfaction, customer retention, the development of people's capabilities, R&D, productivity and quality of governance – are key for developing a company in the long term and should be considered in any thorough assessment of the firm's performance and potential for growth.

It is true that each stakeholder would like to focus on some of those indicators, but a key challenge for good governance and leadership is to make those objectives compatible with one another and to develop a coherent model. As a matter of fact, those performance indicators are not independent: they interact with one another and reinforce one another. Unity is a quality of a company with a purpose (Pérez López, 1993) and an attribute of a respected institution that includes and integrates the legitimate goals of a diverse section of the firm's stakeholders. Unity also gives a company a holistic perspective that should have preeminence over partial perspectives of the firm.

6. An Agenda for CEOs

This paper has discussed the notion of the firm as a respected institution in society and the need to include such a notion in today's debate on the future of capitalism, not only to revitalize companies and their role but also to help renew capitalism from the inside. Respected companies need to be successful in a variety of dimensions. In the long term, it is impossible to be successful in only one dimension, such as economic profitability or social impact. Decision making means choice, but choice does not mean exclusion. It implies good judgment in the way business leaders define their different objectives and set priorities and integrate those objectives. As expectations about companies and their role in society grow, the challenge is how to bring about a smart integration of goals and objectives.

The CEO's job is to make possible what seem to be incompatible objectives in the short term. This is not a technical job: it is the outcome of exercising human virtues such as prudence, wisdom, fortitude and the search for the common good. At its foundation are solid beliefs and values about what a company is, what its purpose is and how people can contribute to it while developing in the process. In a nutshell, CEOs take into account that a company is an institution with financial goals but made up of people who work together to serve customers.

In this respect, the CEO's job is to make a company a more respected institution and an active player in helping build a healthier society, and this involves some key tasks:

- Defining the shared objective of making the firm a more respected institution
- Broadening horizons when considering goals, policies and performance indicators
- Setting priorities and relationships among goals and objectives in the different areas
- Describing a simple model of how the different areas considered here interact with one another in order to make the firm more respected
- Making sure that strategic thinking, planning, budgeting and decision making in the company all take into account the holistic view presented here
- Pursuing efficient execution and assessment
- Fostering respect for each person
- Thinking about and defining plans to achieve a wider social impact

Companies that are able to generate success in these dimensions have the qualities needed to be respected by different stakeholders and public opinion. Shareholders will be pleased with a positive and reliable economic performance. Customers will appreciate the goods and services and eventually may become more loyal to the company. Employees will value the professional context that firms create for them and how firms design people policies and treat each person. Respected companies experience problems and make mistakes, but the sense of purpose that they have will help them emerge stronger and reinforce their reputation.

Reforming capitalism is a complex task, but it cannot be achieved if companies do not change their perspective and become responsible social players. This is an additional reason why we need to think about how to build respected companies. Moreover, respected companies will give society not only stabler firms oriented toward the longer term but also a reference point of institutions that care about the common good of society and the flourishing of individuals.

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Endnotes

[1] Polls show how views on companies have changed over the past few years. The 2015 Edelman Barometer shows that, for the first time since the end of the financial crisis, trust in business faltered in 2015. Trust levels in business declined in 16 of the 27 countries surveyed and the majority of countries sit below 50% with regard to trust in business. A 2015 survey by Pew Research Center in the United States showed that only 33% of the public had a positive impression of large companies, only slightly higher than the percentage with positive views on Congress or the federal government. In contrast, 82% of the public had a positive view of small business.

[2] Francesco Guerrera, "Welch Condemns Share Price Focus," *Financial Times*, March 13, 2009.

[3] Some criticisms of the notion of stakeholder management or the inclusion of CSR in corporate policies (Karnani, 2011) look at a limited and partial picture of their true nature. Melé (2002) offers a more balanced view of the potential and limits of stakeholder management.

[4] Andreu and Rosanas (2012) develop a comprehensive view of how management should change to make companies better institutions.

[5] This model was outlined briefly in Canals (2010a).

[6] "Bertelsmann Essentials," http://www.bertelsmann.com/company/essentials/our-mission/, accessed on December 30, 2015.